Interest on loan of farmers

†1000. SHRI P.K. MAHESHWARI: Will the Minister of FINANCE be pleased to state:

(a) whether Government have received any representation with regard to the charging of compound interest on the interest on loans taken by the farmers;

(b) if so, the details thereof;

(c) whether Government intend to charge simple interest instead of compound interest on such loans;

(d) if so, the action taken in this regard alongwith the guidelines issued to the banks by Government; and

(e) if not, the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL): (a) to (e) No, Sir. Reserve Bank of India (RBI) has issued the following guidelines to commercial banks regarding the procedure for charging/ compounding interest on loan accounts:

(i) In respect of direct agricultural advances, banks should not compound interest in case of current dues, i.e. crop loans and instalments not fallen due in respect of term loans, as the agriculturists do not have any regular source of income other than sale proceeds of their crops. When crop loans or instalments under term loans become overdue, banks can add interest outstanding to the principal;

(ii) Further, total interest debited to an account should not exceed the principal amount in respect of short-term advances to small and marginal farmers.

RBI has also advised Commercial Banks that in the case of long duration crops like sugarcane etc. banks should charge interest at annual rates and compound the interest only if the loan/instalment becomes overdue.

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†Original notice of the question was received in Hindi.